LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7276
BILL NUMBER: HB 1357

DATE PREPARED: Jan 14, 2002
BILL AMENDED:

SUBJECT: Property Tax Replacement Credit; Sales Tax.

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FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2002	FY 2003	FY 2004
State Revenues		**811,500,000**	**912,400,000**
State Expenditures		**482,500,000**	**985,800,000**
Net Increase (Decrease)		**329,000,000**	**(73,400,000)**

Summary of Legislation: This bill increases the Property Tax Replacement Credit from 20% to 40% of the total county tax levy. It increases the allowable property tax credit on property with an assessed value exceeding the base assessed value of property within a tax increment financing (TIF) area. The bill also increases the Sales & Use Tax from 5% to 6% and it imposes the Sales Tax on certain services.

Effective Date: July 1, 2002; January 1, 2003.

Explanation of State Expenditures: ***PTRC*****:** This provision would double the amount of PTRC that the state pays. In CY 2001, PTRC amounted to $886.5 M. The five-year average growth in PTRC payments is 4.33%. By increasing the credit percentage from 20% to 40%, the credit will increase by an estimated $964.9 M in CY 2003 , $1,006.7 M in CY 2004, and $1,050.3 M in CY 2005. On a fiscal year basis, the increase in the state's cost for PTRC under this bill would be approximately **$482.5 M in FY 2003 (½ year), $985.8 M in FY 2004, and $1,028.5 M in FY 2005.**

PTRC is paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Additional PTRC expenditures would ultimately come from the PTRF and the General Fund.

Explanation of State Revenues: ***Sales & Use Tax:*** Increasing the Sales & Use Tax to 6% and expanding the tax base to include the sale of various services is estimated to increase state revenue by **$811.5 M in FY 2003 and $912.4 M in FY 2004.** The estimate for FY 2003 assumes increased Sales Tax revenue from only 11 of the 12 months in which the increase is in effect during FY 2003 because of the timing of remittance and posting of Sales Tax revenue.

Sales and Use Taxes are currently deposited in the state General Fund (59.03%), the Property Tax Replacement Fund (40%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Loan Fund (0.04%). This bill will change the distribution to the following: state General Fund (44.192%), the Property Tax Replacement Fund (55.0%), Public Mass Transportation Fund (0.633%), Commuter Rail Service Fund (0.142%), and the Industrial Rail Service Loan Fund (0.033%).

Methodology: Increasing the Sales and Use Tax from 5% to 6% over the current base of sales taxable transactions will generate approximately $720.4 M in FY 2003 and $806.4 M in FY 2004. This estimate assumes that the Sales Tax revenue will grow 2.6% over FY 2003. (This is the same rate forecast for FY 2002 by the Revenue Technical Committee on November 14, 2001.)

The bill also expands the application of the Sales Tax to include the purchase of several types of services. The impact of expanding the Sales Tax to various services is estimated to generate a *minimum* of $91.1M in FY 2003 and $106.0 M in FY 2004. The estimated impact of this provision is considerable as a base minimum because it assumes that most purchases by businesses will fall under the "double direct" exemption currently provided for in the bill. Under current law, purchases of equipment that are acquired for the direct use in the direct production of a good are exempt from the Sales Tax. Data were not available to evaluate to what extent the "double direct" exemption would be available to service-purchasing businesses.

Explanation of Local Expenditures:

Explanation of Local Revenues: ***PTRC*****:** Total revenues for local government and schools would not be affected. The bill changes the allowable local PTRC for taxpayers in TIF areas from 20% to 40%. This could reduce the revenue available to the local TIF authority. The TIF authority would ultimately decide how much money is available to pay PTRC after all obligations are met and adjust the rate accordingly.

All taxpayers would benefit from the additional 20% in PTRC. Because PTRC is applied only to operating funds (with some exceptions), taxpayers will likely have an estimated 14.25% reduction in overall tax liabilities in CY 2003.

State Agencies Affected: Department of Local Government Finance (State Tax Board); Department of State Revenue.

Local Agencies Affected: County auditors; TIF districts.

Information Sources: Local Government Database; Dan Bastin, Auditor of State's Office.